

VZCZCXRO2567
RR RUEH DU RUEHJO RUEHMR
DE RUEHSA #1123/01 0761037
ZNR UUUUU ZZH
R 171037Z MAR 06
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 2274
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 PRETORIA 001123

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [BEXP](#) [KTDB](#) [PGOV](#) [SF](#)

SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER MARCH 17 2006
ISSUE

11. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Are SA's Growth Prospects Faltering?;
 - Energy Shortages will not Impact Higher Growth;
 - South Africa's Entrepreneurship Ranking Falls;
 - Value of BEE Transactions Decline but Numbers Increase;
 - Importance of Informal Sector Underestimated; and
 - South Africa Ranked 28th in Ease of Doing Business.
- End Summary.

Are SA's Growth Prospects Faltering?

12. The national strike by Transnet workers, coupled with intermittent power outages in South Africa's Western Cape, might lead to a GDP growth rate below 3% in the first quarter 2006, according to several economists. During the last quarter of 2005, GDP grew by 3.3%; however, if the Transnet strike is successful, ports, trains, commuter railways and road freight operations, will be affected. Metrorail, the Durban Container Terminal and the Richard's Bay Terminal are expected to be the hardest hit. T-Sec chief economist Mike Schussler said that a one-day national strike by more than 60,000 Transnet employees could cost the economy R100 million (\$17 million, using 6 rands per dollar) or more. Standard Bank chief economist Goolam Ballim said the cumulative effect of the strike, along with Western Cape power cuts, could reduce GDP growth by 0.5% in the first quarter in a worst-case scenario. The South African Chamber of Business asserted that February's two-day strike at the Durban Container Terminal had cost the economy R110 million a day. However, Chris Hart, a senior ABSA bank economist who forecasts first quarter 2006 GDP growth at 3.5%-4.5%, discounted large negative impacts of a Transnet strike. Unions are worried that the disposal of Transnet's noncore assets, excluding South African Airways, could cost about 30,000 jobs. Source: Business Day, March 13.

Energy Shortages will not Impact Higher Growth

13. In Parliament, Public Enterprises Minister Alec Erwin denied that South Africa faces a national energy crisis, asserting that tight reserve margins were the reasons for the temporary power shortages. South Africa's margin of

reserve-generation capacity of 8%-10% was much lower than the desired 15%, because higher than expected economic growth had led to tightening reserves. Erwin denied that investors were changing their minds about investing in South Africa. The South African government had no knowledge that according to press reports, a Russian aluminum firm, SUAL, reversed its decision to invest in an aluminum smelter because of electricity-supply shortages. Erwin insisted government was negotiating with only one investor, Alcan, about a smelter at Coega. Erwin emphasized Eskom's plans to accelerate the spending of R84 billion (\$14 billion) over the next five years on maintenance, upgrading old plants and building new capacity, and will spend an estimated \$25 billion between 2010 and 2024 to almost double existing capacity. Eskom CEO Thulani Gcabashe expected a short-term 300MW-400MW shortfall during morning and evening peak hours in Western Cape over the next several months. Gcabashe said Eskom expected a peak demand of 35100MW nationally this year, and had 36937MW of capacity. An abnormally cold winter could add about 1000MW to peak demand. Source: Reuters, March 14; Business Day, March 15.

South Africa's Entrepreneurship Ranking Falls

14. The 2006 Global Entrepreneurship Monitor (GEM) showed that South Africa's entrepreneurship ranking had dropped from 20th position out of 34 countries in 2004 to 25th position out of 35 countries in 2005. GEM differentiates between businesses that are started because people sense an opportunity to earn more money, for lifestyle reasons, or simply a business opportunity, and those businesses that are started because people have no other option. The

PRETORIA 00001123 002 OF 003

GEM report showed that less than 3% of businesses started due to lack of options, such as those in the informal sector, were likely to create a significant number of jobs. In addition, more educated people were more likely to start a business, sustain a business, and employ people. In South Africa, tertiary educated adults create employment 2.5 times more than those who only completed secondary education, and 11 times greater than those who had not completed secondary education. In other developing countries, there isn't such a large difference between secondary and tertiary education, so someone in another developing country who has secondary education has almost as much chance of being able to start a business and employ people as someone with tertiary education. GEM revealed that South African Indians and whites were more likely to start a business than "coloureds" and black South Africans. This is the fifth year that South Africa has participated in the study, conducted by the University of Cape Town (UCT) Center for Innovation and Entrepreneurship at the UCT Graduate School of Business. Source: Business Report and Business Day, March 13.

Value of BEE Transactions Decline but Numbers Increase

15. According to the BusinessMap Foundation Report, announced black economic empowerment (BEE) transactions amounted to R55 billion (\$8.6 billion using 6.36 rands per dollar, the 2005 average exchange rate) in 2005 compared with BEE transactions worth R62 billion (\$9.6 billion, using 2004's average exchange rate of 6.45 rands per dollar) in 2004. The number of announced BEE transactions increased in 2005 to 350 from 250 in 2004. According to BusinessMap, the top BEE deals by value for 2005 included transactions of Old Mutual's R3.4 billion, Nedbank Group's R3 billion, Transnet Retirement Funds Property Trust's R1.4 billion, Growthpoint Properties' R1 billion, and Nafcoc Investment Holding Company's agreement with Johnnic Holdings, worth R675 million. Black ownership of companies trading on the JSE remained at 7%, 18 percentage

points lower than the government's 2014 ownership target of 25%. BusinessMap estimated that 10% of listed companies were owned by BEE firms. However, given that most of these companies were only 50% owned directly by black individuals, this meant that there was direct black ownership of listed companies of around 5%, with 7% of the value of assets owned by blacks. If BEE activity included the frequency of general business activity rather than by number of financial transactions, then BusinessMap estimated that more than 400 major BEE transactions took place in 2005. These activities include contracts offered to BEE companies, joint venture projects, mining transactions where assets are sold rather than shares, as well as exchanging share ownership. Source: Business Day and Business Report, March 15.

Importance of Informal Sector Underestimated

¶6. According to the head of Statistics SA, Statistician-General Pali Lehohla, GDP understates the contribution of the informal sector, which could be as high as 10% rather than 4%, according to current estimates. Measuring the informal sector is difficult because those active in it are not registered as taxpayers. The lack of accurate data on the sector affects measurement of GDP and unemployment, as being outside the formal sector does not necessarily mean people are without employment. There are an estimated 4 million people involved in the informal sector, including about 800,000 domestic workers, and about 7 million in formal sector employment. Lehohla said the GDP growth figure for 2005 might be understated, and could be revised upwards in November to take account of new data. Current figures show the economy grew 4.9% in ¶2005. The 2004 growth rate was revised in November 2005 from 3.7% to 4.5%. In a separate statement to Parliament, Lehohla expects that Statistics SA will not spend 7% of its allocated budget in 2005/06 financial year, compared to 30% of last year's budget not being spent. Source: Business Day, March 16.

South Africa Ranked 28th in Ease of Doing Business

PRETORIA 00001123 003 OF 003

¶7. According to World Bank's 2006 Doing Business report, South Africa is ranked 28th out of 155 countries in overall ease of doing business. The top rank went to New Zealand and Democratic Republic of Congo attained the 155th position. Mauritius was the only other country in Africa ranked higher than South Africa, coming in at 23 with Botswana being the next closest African country at ¶40. In order to rank overall ease of doing business, 8 categories were compared across the 155 countries. The 8 categories include: starting a business, licenses, hiring and firing, registering properties, protecting investors, paying taxes, trading across borders, and enforcing contracts. South Africa received its highest score in protecting investors (ranked 8th) and its lowest score in paying taxes (ranked 84th). The next best South African rank was in dealing with licenses and enforcing contracts, at 37th and 38th, respectively. Source: www.doingbusiness.org, March 16.

TEITELBAUM